

# EVALUATION OF VOLUNTARY RETIREMENT SCHEME (VRS) IN PUBLIC SECTOR UNDERTAKING : THE CASE OF BHEL IN BHOPAL

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## Introduction

Today, it has become necessary to dispense with the excess manpower for improving the health of organizations. If this is not done, the excess labour could cause industrial sickness. At present, many companies are in loss and nearly all the government organizations are turning to be private concerns. In India, public sectors, both the Central as well as State, have expended indiscriminately and extended to non-priority sectors where private sectors would perform better.

Due to the forces of globalization and liberalization, the companies are facing competitions. The stimulus for globalization comes from the urge to grow, the need to become competitive, the need to diversify and to gain the strategic advantages of internationalization. Moreover, due to the introduction of information technologies the manpower need of the companies has also been reduced. Almost all the government institutions have excess manpower. The fact that the manpower strength was out of bound and the expenditures of salaries of workers was unbearable for the companies.

Due to the losses faced by the companies, they became unable to complete with their peer institutions. Also, due to the shortage of funds, the better quality of goods (commodity) could not come in the market. The late delivery of products to the customer resulted in low number of orders, as well as the low price of the imported articles in comparison to the Indian products. This has resulted in lowering down the indigenous product prices.

The open trade policy of government of India, globalization policy and introduction of information technology has resulted in a substantial decrease in human labour. Computerization has increased the business competition due to the low price of imported articles in comparison to the Indian products, the prices of indigenous products are decreasing. In this regards, above necessary measures were taken. These included reducing investment in government institutions, reducing the number of employees to reduce wage bills, and to follow the laws and obligations of the multinational and international financial institutions.

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In view of this, government of India has introduced "Golden Shake Hand Policy" with the employees, which has been put forward by "Shri Yashwant Sinha" the Central Minister for Finance. According to this policy the Ministry of Heavy Industries, Government of India has introduced the "Voluntary Retirement Scheme" (VRS) in B.H.E.L.

## **OBJECTIVE OF THE STUDY**

In the present study, an attempt was made to evaluate the VRS implemented by the BHEL, a Public Sector Undertaking in Bhopal. The major objectives of this study were:

- (i) To examine the implications of Voluntary Retirement Scheme in B.H.E.L, Bhopal.
- (ii) To understand, whether VRS employees are satisfied with their emoluments received from the company.
- (iii) To know how far the Voluntary Retirement Scheme has been effective for new intake.
- (iv) To examine the efficiency and productivity of the employees after giving V.R.S.

In view of the above, it was hypothesized that

- (i) Efficiency and productivity of the company has increased due to the implementation of VRS.
- (ii) Personnel expenses have decreased due to VRS.
- (iii) Voluntary retirement scheme is helpful in providing jobs to the employment seekers.
- (iv) Cost of production in the organisations has decreased due to VRS.

## **Procedure**

In order to make a logical understanding of the subject, a questionnaire was prepared. This questionnaire had 5 closed-ended items related to the VRS. By using this questionnaire, responses of 200 VRS employees were obtained. These respondents belong to the categories of Executives, Foreman and Supervisors.

## **Introduction of Bharat Heavy Electricals Limited (B.H.E.L.)**

Bharat Heavy Electricals Limited, widely known as B.H.E.L., is a well-known Public Sector Undertaking recognized across the industrial world. B.H.E.L. ranks among the top twelve leading International Companies in the power field, and it is the largest engineering and manufacturing enterprise of its kind in India.

The Heavy Electricals Ltd. Bhopal plant, was set up in 1956 but the production actually started from 1960. Similarly Bharat Heavy Electricals Limited was established in November 1964, B.H.E.L. has been awarded "ISO 9000 Certification" (Certification

of International Standard Production & Services). Further, it has also been declared as one of the "Navratnas" of India by the Government of India, on the basis of its overall performance, exports and profits. This company has acquired and assimilated the latest technology from all over the world through a number of collaborations with international giants from U.K., U.S.S.R., Japan, Switzerland, France, Italy, West Germany, Sweden etc.

### **Implementation of Voluntary Retirement Scheme (V.R.S.) in Different Public Sectors.**

The Voluntary Retirement Scheme was introduced in view of the following advantages:-

- Trade unions will have a much lesser role to play.
- There is a likelihood of a improved structure for those who decide to stay back.
- Promotion prospects for all are likely to improve.
- The work culture in the company is likely to improve.
- With reduced staff, reduced trade union interference and fresh recruitment, manager's job will be much easy and will pay rich dividends.
- More perks are likely to be given to attract better talent.

### **Voluntary retirement scheme in different public sector likes :**

**The Madhya Pradesh State Industries Corporation (MPSIC).** The MPSIC has introduced Voluntary Retirement Scheme. The Government has already closed down the M.P. State Fisheries Development Corporation and Slum Clearance Board in M. P. State Industries Corporations, Cycle Industries – Guna, Watch Factory-Betul, Agriculture Implement Factory-Khandwa have been closed down. Even the sugar mills of Corporation at Joara have been closed. The employees of this Corporation have given voluntary retirement.

**M. P. Vastra Udhog Corporations (MPVUC).** Even the M.P. Vastra Udhog Corporation is affected by the Voluntary Retirement Scheme. The scheme will be in force, as soon as the finance is arranged. Presently only 515 employees are working in MPVUC.

**M.P. Electricity board (M.P.E.B.)** The voluntary retirement scheme is also being implemented in the M.P. Electricity Board. The Asian Development Bank has required Electricity Board will grant Rs. 45 Arabs. It has been planned that the M.P.E.B. will retire those employees who have completed their services for a period of 25 years, and their Confidential Report (C.R.) is not upto the mark.

### **The Madhya Pradesh State and Road Transport Corporation (MPSRTC)**

This Corporation has also implemented Voluntary Retirement Scheme. More than

2500 employees have opted for V.R.S. for which the payment of Rs. 100 crore is needed and the amount has not yet reached the Corporation. The employees who have opted for V.R.S. include employees from Ujjain, Rewa, Indore, Gwalior, Jabalpur and Central workshop at Mhou and Gwalior.

**The Madhya Pradesh Laghu Udyog Nigam Limited (MPLUNL)** The consultant appointed by the Asian Development Bank (ADB) has recommended for restricting and downsizing the MPLUN. For downsizing, the V.R.S. approved by the government has been introduced in the Corporation. Approximately, 56 persons have applied under this scheme for which Rs. 1.50 crores is required.

**Banks.** The Government has also introduced V.R.S. in Banks. When the Government cleared the V.R.S. policy for bank employees, the target was to reduce 10% of the staff strength of over 8.74% lakh employees. But once the scheme started the response exceeded bank's expectations. State run Banks who have come out with a V.R.S. including Bank of India, United Bank of India, Canara Bank, UCO Bank, Syndicate Bank, Indian Bank, The Central Bank of India etc.

**Voluntary Retirement Scheme in B.H.E.L. Bhopal Unit.** When B.H.E.L. was established, its financial position was quite sound. Many proposals from foreign countries for the manufacturing of big machinery were offered to B.H.E.L., which was not only made but was also delivered in due time to them. Thus B.H.E.L. achieved its goals. Lakhs of people's livelihood depends upon this company.

But from the last few years this company is going in loss, and it is facing problem in paying salary to its employees. The B.H.E.L. townships is shrinking. About 40 years back Bharat Heavy Electrical Limited (B.H.E.L.) was spread over an area of 6000 acres but now it has shrunk in size and it is reduced to 4750 acres. The process of shrinking is still on and the reason is that in an era of recession it is not capable of sustaining the burden of maintenance. B.H.E.L. is spending Rs. 2.5 crores on maintenance every year so it want to limit itself to running the factory on its land. In four decades, only six times B.H.E.L. could not achieve production target. Last year (2001-02) when the target was not achieved, the B.H.E.L. management decided to have drastic changes in its activities.

Moreover in this age of computerization, where computer can do more work in less time, the demand of labour force is lowered down. Due to the loan sanctioned by the World Bank, the Government of India brought the proposal of "Golden Shake Hand Policy" of VRS to protect the financial position of the employees and so far the attractive retirement scheme was started.

Before the V.R.S. the numbers of employees in B.H.E.L. were 13,619 which was left to 9,622 after the implementation of V.R.S. in B.H.E.L. on 1st July 1999.

## BHEL VRS at Glance

Particulars	VRS 1999	VRS 2000	VRS 2001
1. Aim	To reduce man power in a systematic way by giving them attractive incentives before their date of retirement	To reduce man power in a systematic way by giving them before their date of retirement	To reduce man power in a by giving them attractive incentives before their date of retirement
2. Eligibility	Employees who had completed 50 years of age or completed 20 years of service (including training period)	Employees who had completed 45 years of age or completed 15 years of service (including training period)	Employees who had completed 45 years of age or completed 15 years of service (including training period)
3. Duration	1 July 1999 to 31 Oct 1999 (4 month)	15th July 2000 and with-drawn by management	1 May 2001 and with drawn by management
4. Comprehensive profit	45 days salary per year for the complete year of service or salary of the remaining moths which, ever is lower.	60 days salary per year for the complete year of service or salary of the remaining moths (not more then 60 months) which, ever is lower.	60 days salary per year for the complete year of service or salary of the remaining moths (not more then 60 months), which ever is lower.
5. Tax free amount	Up to Rs. 5,00,0000 under section 10(10) c	Up to Rs. 5,00,0000 under section 10(10) c	Up to Rs. 5,00,0000 under section 10(10) c
6. Mode of Payment	Lum sum payment or in three years at the will of VRS employees	Lum sum payment or in three years at the will of VRS employees	Lum sum payment or in three years at the will of VRS employees
7. Restriction on VRS	No restriction	No restriction	<ol style="list-style-type: none"> <li>1. Employees got promotion on 25.06.2000 will not be eligible for availing VRS.</li> <li>2. employees who have attained the age of 55 years or who had completed 30 years of service till date of application.</li> <li>3. employees under grade E6,E6A,E7.&amp;E8 who attained the age of more than 50 years of service till the date of application</li> </ol>

## Findings :

**Table – 1 Position of employment and the VRS amount paid to them.**

(i) No of Employees taking VRS	
1999	Executives = 398, Supervisors = 534 Workers = 1550
2000	Executives = 42, Supervisors = 30 Workers = 115
2001	Executives = 43, Supervisors = 38 Workers = 302
(ii) Designation at the time of availing VRS	
	Artisans 04 (2%)
	Foreman 68 (34%)
	Technician 40 (20%)
	Executive 88 (44%)
	Total 200
(iii) Amount involved in VRS	
April 1999 – March 2000	: Rs. 1,223 lakhs
April 2000 – March 2001	: Rs. 1,245 lakhs

It is clear from Table 1 that out of 2000 respondents, 4(02%) belonged to Artisan group, 68(34%) to Foreman group, 40(20%) to Technician group, while 88 (44%) respondents belonged to Executive group, at the time of availing V.R.S.

**Table – 2 Opinion of respondents regarding the VRS**

Options	No of VRS Employees	Percentage
Benefit to Employees	16	8%
Good Policy (Scheme)	104	52%
Government's own benefit	68	34%
Others	12	6%
Total	200	100%

$$X^2 = 116.80 \quad df = 3 \quad P < 0.001$$

It's clear from Table 2 that 16 (8%) respondents favored V.R.S. as it is beneficial to employees. 104 (52%) respondents favour V.R.S. as a good policy and 68(34%) favour

VRS as it is beneficial for the government, while 12(6%) respondents favour VRS due to many other reasons. The Chi square value clearly indicates that opinion of respondents was significantly different.

**Table 3. Reasons for implementing VRS by the BHEL**

Options	No of VRS Employees	Percentage
To reduce the number of employees and cost	136	68%
Improvement of productivity and efficiency	32	16%
To provide employment to the new intake	24	12%
Others	8	4%
Total	200	100%

$$X^2 = 203 \text{ df} = 3, P < 0.001$$

Table 3 shows respondents have given many reasons for initiating VRS by the BHEL said that 136 (68%) respondents are of the opinion that the scheme was initiated to reduce the number of employees, 32 (16%) respondents are of the opinion that it was initiated to improve productivity and efficiency whereas 24 (12%) respondents it is to provide employment to new generation. Only 8 (4%) respondents have other opinion. The Chi square value clearly indicates that respondents have given significantly different reasons for implementing the VRS.

**Table - 4 : Benefits of VRS in view of VRS employees**

Yes	162 (81%)
No	16 (8%)
No Answer	12 (6%)
Partially yes	10 (5%)

$$X^2 = 334.92 \text{ df} = 3, P < 0.001$$

Benefit for new intake	
Partially helpful	20 (10%)
No helpful	176 (88%)
No opinion	4 (2%)

$$X^2 = 298.62, \text{ df} = 2, P < 0.001$$

In regards to the benefits of VRS to respondents it is clear from Table 4 that 162 (81%) respondents were satisfied and 16 (8%) respondents were partially satisfied. Chi square test also indicated significant variation in the opinion of employees.

In regard to the opinion of the respondents about the benefits to new intake, results presented in Table 4 indicated that 20 (10%) respondents have opinion that VRS is beneficial for new intake. However, majority of the respondent 176 (88%) have opinion that this scheme is not beneficial for new intake while rest of the 4(2%) respondents had no opinion. Chi square test also indicated significant differences in the opinion of respondents.

**Table-5 Position of employees output and revenue (1991-2001)**

Year	Number of employees	Output (Rs. in crore)	Revenue (Rs. in crore)
1991-92	17744	655.85	713.23
1992-93	17238	688.89	748.74
1993-94	16805	721.45	763.48
1994-95	16158	794.98	830.52
1995-96	15531	904.31	954.24
1996-97	14671	949.63	1008.41
1997-98	13614	991.2	1069.58
<b>After VRS</b>			
<b>Changing position of employees output and revenue</b>			
1998-99	13609	909.96	1158.62
1999-2000	11126	849.40	1055.00
2000-2001	10210	885.10	944.35

Source : Complied from Annual Report of BHEL (from 1991 to 2001)

The statement about the number of employees, output and revenue is shown in Table 5 which indicates that number of employees in the organisation has been decreasing from 1991-92 to 1997-98 before VRS. Also, after VRS number of employees in the organisation are decreasing with the higher rate. The position of the output is increasing since 1991-92 to 1997-98 continuously in proportionate before VRS, But after VRS the output is increasing with a higher rate. The Revenue is increasing from 1991-92 to 1997-98 continuously before VRS but after VRS the revenue has been decreasing. This relationship was clearly evident from the coefficient of correlation. The correlation between number of employees and output before VRS was found negative ( $r = -0.98$ )

which was statistically significant, ( $p < 0.05$ ). The coefficient of correlation between the number of employees and output after VRS was found highly positive and statistically significant ( $r = 0.66$ ,  $p < 0.05$ ).

**Table-6 Cost of production and total personnel expenses.**

Year	Cost of production (Rs. in crore)	Total personnel expenses (Rs. in crore)	% of Personnel Exp. with to total cost of Production
1991-92	682.73	117.66	17.23
1992-93	727.32	128.32	17.64
1993-94	686.08	129.62	18.89
1994-95	754.94	150.98	20.00
1995-96	928.87	235.00	25.30
1996-97	921.81	187.87	20.38
1997-98	988.22	205.65	20.81
<b>After VRS</b>			
<b>Changing position of employees cost of product and total personnel expenses</b>			
1998-99	1185.64	251.47	21.21
1999-2000	975.43	236.79	24.28
2000-2001	882	202.10	22.92

Source : Compiled from Annual Report of BHEL (from 1991 to 2001)

The statement of cost of production, personnel expenses presented in Table 6 indicates that the cost of production has been increasing continuously from 1991-92 to 1997-98 but after VRS the cost of production decreased considerably. Previously, the total personnel expenses were increasing, but after VRS the total personnel expenses are decreasing at a slower rate. The percentage of personnel expenses with the total cost of production shows the same pattern that personnel expenses has been increasing with the cost of production. The coefficient of correlation between cost of production and total personnel expenses was found highly positive and statistically significant both before ( $r = 0.93$ ) and after ( $r = 0.90$ ) VRS.

## CONCLUSION

Findings of the present study have clearly indicated that employees of BHEL are satisfied by availing VRS as it has ensured their well-established financial and planned life. This will also contribute significantly to their happy and satisfying future. According to the VRS policy, a person availing VRS is exempted from income tax under section 10

(10 c) made in law in the year 1961, for the lumpsum amount of Rs. 5 lakhs. By investing the amount in the Institutions like Post Office M.I.S. LIC Premium, the interest received by this amount became the source of income and their hard cash remained safe. Some of the VRS Employees have also invested the part of their money in the business for their unemployed wards. Results have shown that after taking VRS, employees feel free from a number of problems and relieved from job tensions. It was noted that generally those employees who were medically unfit had the boom, as they were unable to do their duties and were very much in need of such schemes. The employees who were unsatisfied with their jobs due to some reasons like harassment and promotion related problems are happy and free from tension due to VRS. The findings reveal that the percentage of executives availing VRS is more than other cadres. This indicates that executives received handsome money and are in position of getting better job opportunities outside.

Personnel expenses have decreased due to VRS because a number of employees have taken the benefits of these schemes. The fact is that the personnel expenses have reduced because the company is free from paying salary and other expenses to VRS employees. The cost of production of the organization has also decreased due to reduction in personnel expenses.

Present study also indicates that the efficiency and productivity of the organization is increased due to the implementation of voluntary retirement scheme. People who were medically unfit, or got late promotions were eligible for VRS. The company did not reject their applications and obliged them by giving VRS and thus reducing the number of employees in a systematic way. As the BHEL had to pay VRS employees only the Basic Salary plus Dearness Allowance (D.A.) the company was in benefit.

Even by reducing the number of employees, the BHEL has just sufficient company staff with adequate work load. Thus, through this systematic process, the cost of production has come down drastically, which in long term is going to make a regular profit. As a result, loss of profit in no way will occur. Now the company will give full attention to achieve quality of the equipment's so as to compete with the international market. This will increase the possibility to have global orders.

**In view of the findings of the present study the following suggestions can be given :**

1. The suggestion should be invited from the employees for the effective implementation of VRS policy in coming years.
2. The system of flow of application of VRS should be inspected at regular intervals so that they do not get delayed to reach their destination.
3. Since VRS employees have rich experiences, the government should seek policies through which these VRS employees can get re-employment and contribute to the nation economy.

4. The facilities provided for the employee who seeks VRS should be more attractive, so that the company can achieve its goal of implementing VRS smoothly.
5. The company must ensure that employees are not opting VRS because of the harassment on part of the senior officers or company at large.
6. The company should be very much watchful regarding promotions of the employees, so that only efficient persons get promotions.
7. The training being granted to VRS people should be of one year duration instead of only 40 days.
8. Finally, the government should at the same time, encourage the employment for the new generation.

The government should, always be in view that only public sectors can meet obligations/social welfare for the society by providing services to the employees, whereas the private sectors have one and the only motto and that is to earn more and more profit for themselves either by hook or by crook. Therefore, the government should not shut down public sectors by reducing the number of employees through the introduction of VRS. Though this social welfare and the employees welfare can be protected.

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